

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

KeySpan Energy Delivery New England

D.T.E. 02-66

OFFER OF SETTLEMENT

This Offer of Settlement ("Settlement") is entered into this 23rd day of December, 2002 by and between Boston Gas Company d/b/a KeySpan Energy Delivery New England, Essex Gas Company d/b/a KeySpan Energy Delivery New England, and Colonial Gas Company d/b/a KeySpan Energy Delivery New England (collectively "KeySpan") and the Commonwealth of Massachusetts Division of Energy Resources ("DOER"), for the purpose of resolving all issues that were raised in connection with the above-captioned proceeding. KeySpan and DOER are collectively referred to herein as the "Settling Parties." Pursuant to 220 C.M.R. § 1.10(8), the Settling Parties stipulate to the following:

1. On November 1, 2002, pursuant to G.L. c. 164 App., §§ 2-1 through 2-10 and 225 C.M.R. §§ 4.06 (2) et seq., KeySpan filed with the Department of Telecommunications and Energy ("Department") a petition for approval by the Department of its proposed operating budgets for Residential Conservation Services ("RCS"). On November 13, 2002, KeySpan requested approval of the applicable monthly surcharges for the RCS program for the calendar year January 1, 2003 through December 31, 2003 ("CY 2003").
2. Pursuant to G.L. c. 164 App., §§ 2-1 through 2-10, DOER must adopt a state plan and promulgate regulations necessary to implement that plan. DOER is responsible for (a) establishing residential energy and conservation goals; (b) establishing RCS program guidelines; (c) monitoring the implementation of the program requirements; and (d) overseeing the implementation of the state plan.
3. In support of this Offer of Settlement, the Settling Parties hereby incorporate into this Settlement the exhibits KeySpan filed with the Department in support of its proposed budget and surcharge, i.e. Exhibits KeySpan-1 and 2 and the surcharge calculations prepared by Ms. Ann Leary and submitted to the Department on November 13, 2002.

4. The Settling Parties agree that KeySpan's proposed combined budget shall be \$809,842 and that such budget is adequate to support the activities contemplated during CY 2003. KeySpan's RCS budget filing complies with the requirements established in G.L. c. 164 App., §§ 2-1 through 2-10; 220 C.M.R. §§ 7.00 et seq.; and the filing requirements set forth in Mass. Save, Inc., D.P.U. 85-189 (1985).
5. KeySpan's Calendar Year 2001 (CY 2001) expenses in the Boston Gas Company service territory were \$440,984.48 and are reasonable and therefore recoverable from ratepayers (Boston Gas Company November 13, 2002 letter from A. Leary at p. 3 of 5).
6. KeySpan's actual expenses for the first ten months of Calendar Year 2002 (CY-2002) in the Boston Gas service territory were \$402,078 and are reasonable and therefore recoverable from ratepayers (Boston Gas Company November 13, 2002 letter from A. Leary at p. 2 of 5). The Settling Parties agree that the Department will review KeySpan's actual expenditures for the final two months of CY 2002 in the next annual RCS budget review.
7. KeySpan's CY 2001 expenses in the Essex Gas Company service territory were \$33,639 and are reasonable and therefore recoverable from ratepayers (Essex Gas Company November 13, 2002 letter from A. Leary at p 4 of 5).
8. KeySpan's actual expenses for the first ten months of CY2002 in the Essex Gas service territory were \$34,999 and are reasonable and therefore recoverable from ratepayers (Essex Gas Company November 13, 2002 letter from A. Leary at p 2 of 5). The Settling Parties agree that the Department will review the KeySpan's actual expenditures for the final two months of CY 2002 in the next annual RCS budget review.
9. KeySpan's CY 2001 expenses in the Colonial Gas Company service territory (Lowell Division) were \$49,401 and are reasonable and therefore recoverable from ratepayers (Colonial Gas Company November 13, 2002 letter from A. Leary Lowell Division at p. 6 of 6).

10. KeySpan's actual expenses for the first ten months of CY 2002 in the Colonial Gas service territory (Lowell Division) were \$60,128.09 and are reasonable and therefore recoverable from ratepayers (Colonial Gas Company November 13, 2002 letter from A. Leary Lowell Division at p. 4 of 6). The Settling Parties agree that the Department will review the KeySpan's actual expenditures for the final two months of CY 2002 in the next annual RCS budget review.
11. KeySpan's CY 2001 expenses in the Colonial Gas Company service territory (Cape Division) were \$80,730 and are reasonable and therefore recoverable from ratepayers (Colonial Gas Company November 13, 2002 letter from A. Leary Cape Division at p. 6 of 6).
12. KeySpan's actual expenses for the first ten months of CY 2002 in the Colonial Gas service territory (Cape Division) were \$89,886.57 and are reasonable and therefore recoverable from ratepayers (Colonial Gas Company November 13, 2002 letter from A. Leary Cape Division at p. 4 of 6). The Settling Parties agree that the Department will review the KeySpan's actual expenditures for the final two months of CY 2002 in the next annual RCS budget review.
13. KeySpan's combined CY 2003 budget projections totaling \$809,842 are good faith estimates based on actual in-field experience during CY-2002. These twelve-month estimated expenditures for CY 2003 are reasonable and recoverable from the ratepayers.
14. The Settling Parties agree that RCS program objectives will be facilitated by the adoption of certain incentives to reward program administrators who meet or exceed certain specified program outcomes similar to the metrics applied to the KeySpan CY 2002 RCS program.
15. As a condition of receiving an incentive pursuant to paragraph 14, KeySpan agrees to negotiate in good faith with DOER for revised program goal metrics for the CY 2003 RCS program to replace the current audit goal metric. Such negotiations shall be concluded on or before January 31, 2003.

The Settling Parties have reviewed and discussed the DOER CY 2003 RCS Goals Letter dated October 21, 2002 ("Goals Letter"). The Company commits to working in January 2003 to establish goals designed to achieve the outcomes set forth in the Goals Letter with the following clarifications and adjustments:

Goal #1: Increase Implementation: The Company will work with DOER to establish an appropriate goal of the percentage of HEAs that result in implementation of at least one major measure."

Goal #2: One Stop Shopping: The Company will seek to achieve the outcome as stated in the Goals Letter.

Goal #3: Create a Competitive Market for Energy Efficiency and Renewable Energy Services and Products: This goal will be actively discussed in 2003 RCS Network discussions among the DOER and the Company. During these discussions the Company will be able to advance suggestions and note concerns to DOER for consideration and inclusion in a draft memorandum written by DOER for consideration by the LDCs concerning recommended program changes designed to potentially create a more competitive market for energy efficiency and renewable energy services and products. After the DOER has completed and circulated the guidance memorandum referenced in the Goals Letter, the LDCs and DOER will work in good faith to develop a consensus-based program administrator memorandum that, if feasible, identifies potential program changes designed with the intent to help increase competition and the process to implement those changes. The Settling Parties acknowledge that the Company cannot warrant in advance that a specific plan agreed to by all program administrators will be developed.

Additionally, as set forth in the Goals Letter, the Company will work with DOER to achieve program evaluation goals for 2003 as set forth in the Goals Letter.

For purposes of incentive calculations, major measures implemented and funded within the RCS program will not be also counted towards a KeySpan market transformation program goal or objective. RCS measures implemented and partially financed from electric energy efficiency program funding may be counted towards KeySpan's RCS program goal.

16. KeySpan calculated its RCS surcharge for each of its service territories¹ by dividing the total number of bills expected to be rendered during CY 2003 by the net amount to be collected to support RCS services and factoring in an adjustment with respect to past expenditures and collections. (November 13, 2002 letter from A. Leary).

¹ Separate surcharges were calculated for each of the following service territories: Boston Gas Company, Essex Gas Company, Colonial Gas Company (Lowell Division) and Colonial Gas Company (Cape Division).

17. The RCS surcharge to be applied to the customer bills in the Boston Gas service territory during CY 2003 shall be \$0.08 per bill per month. This surcharge is \$0.03 more than the surcharge of \$0.05 per bill per month approved by the Department in KeySpan Energy Delivery New England, D.T.E. 01-88 (2001) for CY 2002.
18. The RCS surcharge to be applied to the customer bills in the Essex Gas service territory during CY 2003 shall be \$0.06 per bill per month. This surcharge is \$0.04 more than the surcharge of \$0.02 per bill per month approved by the Department in KeySpan Energy Delivery New England, D.T.E. 01-88 (2001) for CY 2002.
19. The RCS surcharge to be applied to the customer bills in the Colonial Gas service territory (Lowell Division) during CY 2003 shall be \$0.07 per bill per month. This surcharge is \$0.03 more than the surcharge of \$0.04 per bill per month approved by the Department in KeySpan Energy Delivery New England, D.T.E. 01-88 (2001) for CY 2002.
20. The RCS surcharge to be applied to the customer bills in the Colonial Gas service territory (Cape Division) during CY 2003 shall be \$0.11 per bill per month. This surcharge is \$0.06 more than the surcharge of \$0.05 per bill per month approved by the Department in KeySpan Energy Delivery New England, D.T.E. 01-88 (2001) for CY 2002.
21. KeySpan's proposed CY 2003 RCS program budget, budget reconciliations, and proposed CY 2003 surcharges, are reasonable.
22. The making of this Settlement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid.
23. This Settlement is expressly conditioned upon the Department's acceptance of all of its provisions, without change or condition on or before December 31, 2002, and if the Department does not accept it in its entirety, without change or condition, the Settlement shall be deemed to be null and void and without effect,

and shall not constitute any part of the record in this proceeding nor be used for any other purpose.

24. The Department's acceptance of this Settlement does not constitute continuing approval of, or precedent regarding, any particular issue in this proceeding, but such acceptance does constitute a determination that, as the Settling Parties believe, the provisions set forth herein are just and reasonable.
25. The discussions which have produced this Settlement have been conducted on the understanding that all offers of settlement and discussion relating thereto are and shall be privileged, and shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in any manner in connection with this proceeding, any further proceeding or otherwise.

Wherefore, the Settling Parties agree to jointly petition the Department to approve this Offer of Settlement by submitting a Joint Motion for Approval of Offer of Settlement in accordance with 220 C.M.R. § 1.10(8), and by their attorneys do hereunto affix their names.

KEYSPAN ENERGY DELIVERY NEW ENGLAND

Thomas P. O'Neill, Counsel
One Beacon Street
Boston, MA 02108
Telephone (617) 742-8400
Telecopier (617) 742-8564

DIVISION OF ENERGY RESOURCES

Steven I. Venezia, Deputy General Counsel
Division of Energy Resources
70 Franklin Street, 7th Floor
Boston, MA 02110
Telephone: (617) 727-4732

Telecopier: (617) 727-0030

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